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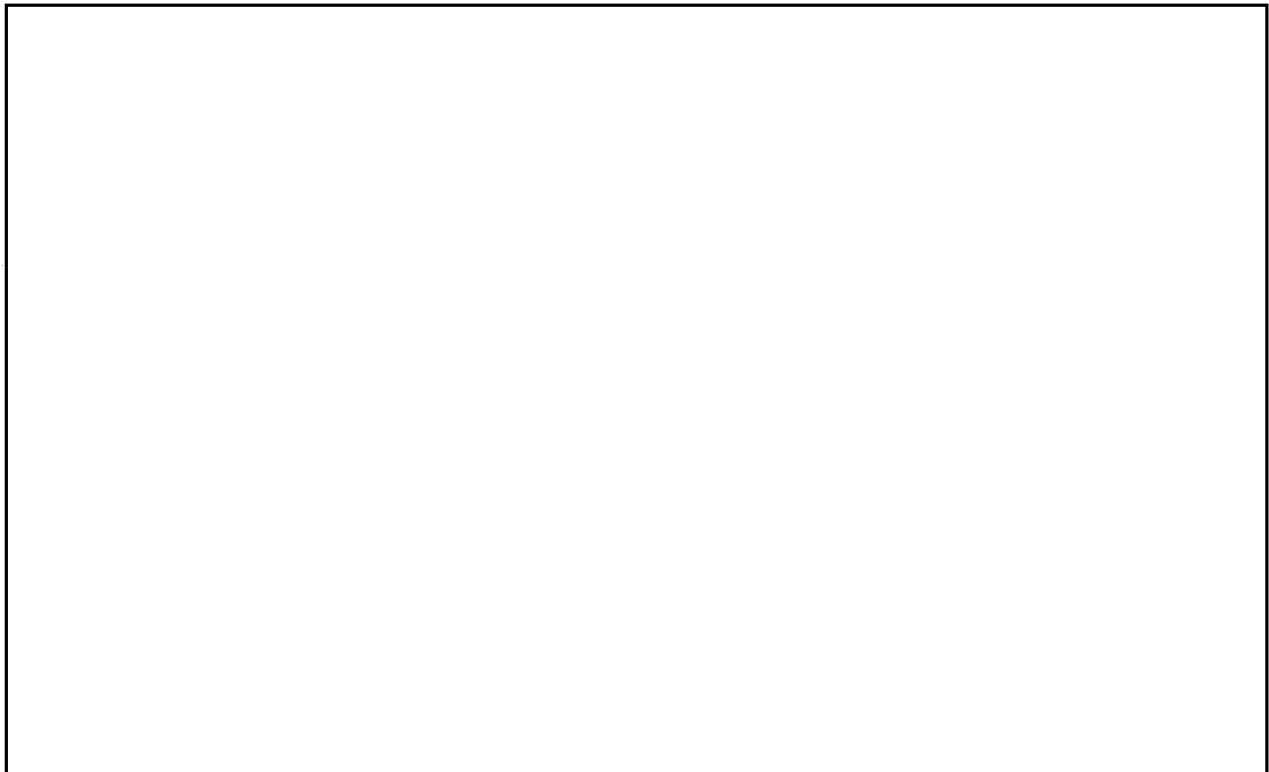
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SOUTHEAST ASIA

2. Cambodia asks France to transfer all powers before negotiations:

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The Cambodian reply to the French offer of 3 July consisted of 60 specific demands and in effect asks France to agree to transfer all its remaining powers and services in advance of negotiations. According to a French official in Paris, the French government is prepared to grant the Cambodian demands "when they have been fully defined and clarified," except for one which would give the king control over both French and Cambodian troops. The officer stated, moreover, that there is strong sentiment in the French government for withdrawing all troops and "leaving Cambodia to its own devices."

Comment: The French high commissioner in Cambodia has observed that the king's demand for top military authority in Cambodia should not prove an insurmountable problem, since he could be delegated nominal command by the French commanding general.

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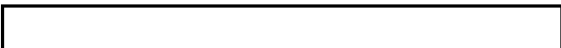
The king has not asked for the withdrawal of French forces. The French are obliged to maintain security in Cambodia to protect their own flank in Cochinchina.

3. Viet Minh commander reportedly planning offensive in central Vietnam:

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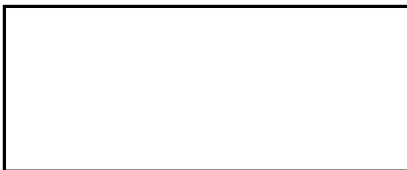
 the Viet Minh commander in chief, Vo Nguyen Giap, is now on an inspection tour of central Annam, and intends to open a campaign there.

Comment: There are only light concentrations of Viet Minh and French troops in this area and no Viet Minh movements to it from major bases in Tonkin have been reported. The French, however, have several important coastal installations and many small posts in Annam, and it is possible that the Viet Minh is preparing intensified action of a local nature.

EASTERN EUROPE

4. Yugoslavia may renew demands for political commitments during Washington talks:

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The American embassy in Rome considers that Yugoslavia's refusal to agree to the establishment of a joint Yugoslav-Greek-Turkish military staff during the recent foreign ministers' conference in Athens reflects a high-level political reversal of the Yugoslav military staff position, possibly for bargaining purposes in Washington.

Yugoslavia had given no evidence during June military meetings that political commitments were regarded as a precondition for continued military planning. Its representatives at the more recent Athens foreign ministers' meeting, however, reportedly resented Turkish reluctance to offer a categorical political commitment that an attack against any one of the Balkan pact members should be regarded as an attack against all three.

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The commander in chief of the southern European forces of NATO believes that planning as envisaged in the recent military staff talks may be impossible in the absence of a tripartite military staff.

Comment: While Tito continues to resist any direct association with NATO, he appears to be increasingly anxious to obtain some kind of mutual defense commitment from Greece and Turkey on the one hand and from the United States, Britain and France on the other.

The current Yugoslav tactic may be to delay joint planning until these commitments are forthcoming. It is possible, therefore, that Yugoslavia plans to use this tactic in the military talks to be held in Washington later in the summer.

WESTERN EUROPE

5. Austro-Soviet agreement recognizes principles of long draft Austrian treaty:

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The Austrian Foreign Ministry has confirmed the signature on 17 July of a contract with the Soviet Union transferring the unfinished Ybbs-Persenbeug hydroelectric project to Austrian control. The contract stipulates that the payment for the project be included in the general settlement under Article 35 of the long draft of the Austrian state treaty.

Comment: Austrian-Soviet negotiations on the Ybbs-Persenbeug project, a Soviet plant hitherto classed as a former German asset, have been under way since early June. The Austrians had promised, however, that no agreement with the USSR would be concluded without Allied approval.

Article 35 of the long draft treaty deals with the disposition of the extensive Soviet-held former German assets in Austria and contains terms tremendously advantageous to the USSR. Allied officials have feared that Austrian agreement to any part of this might seriously impede their efforts to negotiate better terms.

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6. Italian Communists reportedly plan demonstrations against any "reactionary" government:

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The Italian Communist Party will "fight it physically" if the Christian Democrats establish a reactionary government, according to Trieste Communist Party secretary Vidali.

He told a party meeting that as a result of the changed situation in Italy since the 7-8 June national elections, a "great battle" is imminent between the people and the government, and the labor unions are preparing for it. The Trieste Communist Party, he added, must be ready to take to the streets along with the Italian Communists.

Comment: In view of the leftward trend in the Italian elections, parliamentary approval of the new all-Christian Democratic cabinet might be used by the Communists as an excuse for street demonstrations.

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